# Summary of Financial Statements for the Fiscal Year Ended March 31, 2016

May 13, 2016

| | | | | |
|---|---|---|---|---|
| Listed company name | SEIKOH GIKEN Co., Ltd. | | | Listed market JASDAQ |
| Code number | 6834 | URL http://www.seikoh-giken.co.jp | | |
| Representative | (Title) | President & CEO | (Name) Masatoshi Ueno | |
| Inquiries | (Title) | Department Manager | (Name) Yuji Saitoh | Tel +81-47-388-6401 |
| Date of general shareholders' meeting | June 17, 2016 | | Date of dividend payment | June 20, 2016 |
| Date of securities report submission | June 17, 2016 | | | |

(All amounts rounded down to the nearest million yen.)

1. Consolidated business results for the fiscal year ended March 31, 2016 (April 1, 2015 to March 31, 2016)

(1) Consolidated business performance (Percentage figures show the changes from the previous year.)

| | Net sales | | Operating profit | | Ordinary profit | | Net income for the period attributable to shareholders of the parent company | |
|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Year ended March 31, 2016 | 12,182 | 5.8 | 930 | 69.5 | 967 | 50.0 | 550 | 81.2 |
| Year ended March 31, 2015 | 11,517 | 10.9 | 548 | 142.2 | 644 | 145.1 | 303 | – |

| | Net profit per share | Fully diluted net profit per share | Net profit ratio per shareholders' equity | Ordinary profit ratio to total assets | Operating profit ratio to sales amount |
|---|---|---|---|---|---|
| | Yen | Yen | % | % | % |
| Year ended March 31, 2016 | 59.85 | 59.66 | 2.6 | 3.9 | 7.6 |
| Year ended March 31, 2015 | 33.07 | 32.92 | 1.5 | 2.7 | 4.8 |

(2) Consolidated financial position

| | Total assets | Net assets | Shareholders' equity ratio | Net assets per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| Year ended March 31, 2016 | 24,840 | 21,190 | 85.3 | 2,302.30 |
| Year ended March 31, 2015 | 24,250 | 21,022 | 86.7 | 2,286.47 |

(Reference) Shareholders' equity Year ended March 31, 2016 20,341 million yen Year ended March 31, 2015 19,562million yen

(3) Consolidated cash flow

| | Cash flow from operating activities | Cash flow from investing activities | Cash flow from financing activities | Cash and cash equivalents at the end of the period |
|---|---|---|---|---|
| | Million yen | Million yen | Million yen | Million yen |
| Year ended March 31, 2016 | 1,233 | (801) | (72) | 2,828 |
| Year ended March 31, 2015 | 882 | (1,012) | (68) | 2,526 |

2. Dividend status

| (Base date) | Dividend per share | | | | | Gross dividend amount (annual) | Dividend propensity (consolidated) | Dividend ratio to net assets (consolidated) |
|---|---|---|---|---|---|---|---|---|
| | End of the first quarter | End of the second quarter | End of the third quarter | End of the year | Full year | | | |
| | Yen | Yen | Yen | Yen | Yen | Million yen | % | % |
| Year ended March 31, 2015 | – | 0.00 | – | 8.00 | 8.00 | 73 | 24.2 | 0.4 |
| Year ended March 31, 2016 | – | 0.00 | – | 16.00 | 16.00 | 147 | 26.7 | 0.7 |
| Year ending March 31, 2017 (Forecast) | – | 0.00 | – | 16.00 | 16.00 | | 31.3 | |

3. Forecast of consolidated business performance for the year ending March 31, 2017(April 1, 2016 to March 31, 2017)

(Percentage figures for "Full year" show the changes from the previous year, and percentage figures for "Half year" show the changes from the previous interim period.)

| | Sales amount | | Operating profit | | Ordinary profit | | Net income for the period attributable to shareholders of the parent company | | Net profit per share |
|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Half year | 6,170 | 4.5 | 480 | 10.8 | 510 | 10.3 | 300 | 18.9 | 32.63 |
| Full year | 12,500 | 2.6 | 830 | (10.8) | 890 | (8.0) | 470 | (14.6) | 51.12 |

1. Analysis of business results and financial status

(1) Analysis of business results

The global economy in the period under review saw business activity in China and other emerging economies in Asia in protracted decline, with stagnating demand from this region leaving European economies' exports and production languishing. In the US economy, financial markets remained calm after the Fed's departure from its zero interest policy, allowing economic growth to continue at a moderate pace centered on manufacturing.

In Japan, corporate revenues and earnings have kept on a recovery path, attended by rising capital investment and improving environments for employment and household income. Even so, business sentiment at corporations remains weak amid concerns over developments that include further slowing emerging economies, yen strengthening since the start of 2016, and volatile crude oil prices, leaving the outlook uncertain.

In the information and telecommunications-related markets and electronics-related markets relevant to the Group, smartphones relinquished their hitherto role as market growth driver and moved into a slowdown phase. Although demand continues to grow for low-end handsets with limited functions, smarthphone diffusion in China with its large demand pool has shifted into the slow lane, leaving the growth rate of the smartphone market blunted. In the car electronics field, progress in the technology development surrounding automotive self-driving systems has put the spotlight on advances in key devices such as car mounted cameras and sensors. Similarly, the expansion of the connected-car market has been rapid, surrounding efforts to achieve driving environments of higher comfort and safety through the use of information gained from communication functions built into automobiles on the roads in town. The Internet of Things (IoT), which interconnects not only these mobile terminals and automobiles but also all other kinds of equipment with the Internet, such as home electrical appliances and industrial machinery, has been moving up to the stage of practical application. This implies the possibility that the analysis and application of aggregated big data could bring drastic change to existing business models and industry structures.

In this setting, the Group has continued to work on the execution of its medium-term management plan "Master Plan 2010 ." The Master Plan 2010 is a three-pronged management plan, proposing "Restructure operations" aimed at creating a lean corporate constitution, "Business expansion" by strengthening operations' selling capabilities and product development capabilities, and "Organizational restructuring" to achieve fast decision making. The launch year of the plan, fiscal year 2010, was mainly dedicated to "Restructure operations", with efforts surrounding the withdrawal from loss-making operations and products, flanked by cost control in areas such as personnel and R&D expenses. Since the second year of the plan, the emphasis has shifted from "Restructure operations" to "Business expansion", with the aim of establishing corporate structures capable of constant income generation by reinforcing the Group's selling capabilities and price competitiveness and through measures for enabling the creation of new businesses, new products, and new business fields.

Continuing from the previous fiscal year, in the period under review we worked to enlarge the molded products business in order to give tangible shape to the goal of "Business expansion." The precision machinery business, previously mainly engaged in external sales of precision molds, has been transitioning to the volume production and external sales of high precision items using in-housed produced molds. Using thin-wall micro-transfer and ornamental molding technologies developed under application of the mold technology, precision polishing technology, and precision processing technology accumulated since the founding of the Group. Our ability to keep up volume production of products with highly intricate reliefs while delivering an accurate expression of the molded product has been attracting visitors from various industries to the trade fairs where the Group has been exhibiting.

At subsidiaries in Japan, sales have continued favorably surrounding metal pressed products for mobile devices. Robust demand has remained intact in automotive electronic parts. In this field we made progress with the construction of a new production site in Chitose city, Hokkaido prefecture, as a precaution for the business continuation risk posed by the possibility of a large-scale earthquake, etc.

In order to strengthen our price competitiveness, we proceeded with measures at our China-based manufacturing subsidiaries in Hangzhou and Dalian to identify and resolve issues in order to lower costs, and worked on boosting competitive strength at the shop-floor level while sharing information with head office on the progress status.

As a result of these measures, consolidated sales for the period under review posted ¥12,182,898 thousand (+5.8% compared with the previous fiscal year). Earnings reflect favorable sales of high-margin products and an improved cost ratio due to efforts at operating cost reductions. Operating income posted ¥930,263 thousand (+69.5% compared with the previous fiscal year), with ordinary income of ¥967,258 thousand (+50.0%) and with ¥550,287 thousand in net income for the period attributable to shareholders of the parent company (+81.2%), marking successful efforts to increase both sales and earnings.

Segment performances developed as follows.

(i)Precision Machinery Business

The Precision Machinery Business is a manufacturer and long-term supplier to our customers of precision molds typically used for the production of optical disks, based on technologies that enable metal precision machining and metal surface polishing at the nanometer (one-millionth millimeter) level. In recent years, while sales of molds continued, the division used its in-house manufactured molds to initiate the volume production of precision molded items to be offered to customers, marking a shift to molded products as the main business. Moreover, the division developed ornamental molding technologies based on its thin-wall molding technology acquired through the manufacture of molds for optical disks and through its micro-transfer technology which accurately transfers reliefs at the micron-level onto molded products. These ornamental molding technologies are a leading-edge technology for giving plastic products the "feel" of a high-quality metal finish, which attracted much interest at trade fairs where the Company exhibited in the period under review.

Furthermore, in the period under review, sales of metal-pressed formed parts for electronic devices performed favorably. These formed parts, which are used for the push button elements of mobile terminals, digital cameras, and remote control units of home electrical appliance, have been highly rated by our customers, who appreciate our advanced technological capabilities that enable us to accommodate the wide and varied specification required by customers with regard to properties such as shape, stroke width, pressure point and resistance "feel," and click sound. In automotive applications, we have been providing customers with a diverse range of formed parts which by way of insert-molding combine plastic and metal - dissimilar materials - paired with heat resistance and abrasion resistance properties. For example, in the period under review, core elements of sensors for gauging brake pressure and fuel injection pressure, etc., showed steady sales growth on the back of increased demand for automotive applications.

As a result, sales at the Precision Machinery Business in the period under review increased to ¥7,594,944 thousand (+11.4% compared with the previous fiscal year).

(ii) Optical Products Business

The Optical Products Business manufactures and markets optical communications devices such as optical connectors used for the optical communications networks that enable fault-free Internet environments as well as optical connector polishing machinery indispensable for the volume production of optical communications devices, etc. In the optical communications market, telecommunications traffic has been surging, fueled by the proliferation of smartphones and other mobile terminals and the rise of social networking services and video dissemination. At the same time, the arrival of the IoT concept, interconnecting not only people and terminals but linking also all manner of machinery including home electrical appliances and automobiles to the Internet suggest that the volumes of data and information circling around the globe will keep growing at a steady pace. However, although the optical communications market has been expanding, market prices for mass-demand, general-use components continued to fall also in the period under review. Moreover, surging labor cost at China-based production sites for optical communications devices have been diluting cost cutting effects.

The Optical Products Business manufactures and markets in addition to optical communications-related items also product groups based on technology applications used for switching back and forth between electrical and optical signals. Such products include, for example, optical transmission units for relaying electrical waves for TV digital. These units have been seeing rising replacement demand since the shift from analog to digital terrestrial TV four years back in July 2011. Another example is optical electric-field sensors, where optical fiber is used for accurately measuring micro electrical waves that occur in the electronic components built into automobiles. These devices help eliminate glitches caused by electrical noise in electric components. Trade inquiries from car manufacturers seeking to further enhance vehicle safety have been on the increase.

As a result, sales at the Optical Products Business in the period under review marked ¥4,587,953 thousand (-2.4% compared with the previous fiscal year).

(Outlook on the next fiscal year)

For the global economy in the fiscal year to March 2017 (April 1, 2016 to March 31, 2017) expectations are for solid growth in the US, contrasted by geopolitical risks in Europe and further slowing growth affecting emerging economies, primarily in Asia, as well as the Chinese economy. The outlook for the Japanese economy is for corporate earnings to remain solid overall, with personal consumption expected to rise ahead of the forthcoming consumption tax rate increase. However, amid concerns over slowing overseas economies and progressing yen strength, vigilance will be required in the time ahead.

In the industries relevant to the Group, automotive-related markets should continue to show strength combined with a quickening pace in next-generation technologies such as self-driving systems, etc. Markets related to optical communications are poised for continued demand expansion surrounding optical communications components on the back of information infrastructure upgrades to accommodate high-speed, large volume telecommunications. Industry earnings, however, are feared to come under further pressure from factors such as falling product prices weighed down by intensifying competition, surging labor cost in China, and the development cost of new products and technologies.

In this business environment, the Group will implement business growth initiatives based on the newly formulated medium-term management plan "Master Plan 2016," with projections for the next fiscal year calling for consolidated sales of ¥12,500 million, operating income of ¥830 million, and ordinary income of ¥890 million, with ¥470 million in net income for the period

attributable to shareholders of the parent company.
* The aforementioned projections are based on information currently available. Actual results may differ from the stated projections due to changes in various factors.

(2) Financial status analysis
(i) Status of assets, liabilities, and net assets
(Assets)
Consolidated assets at the end of the period under review totaled ¥24,840,005 thousand, reflecting an increase of ¥589,848 thousand compared with the end of the previous fiscal year. Current assets increased ¥180,905 thousand compared with the end of the previous fiscal year to ¥14,417,083 thousand. Main factors were higher accounts receivable-trade and accounts receivable-other. Non-current assets rose ¥408,943 thousand compared with the end of the previous fiscal year to ¥10,422,921 thousand. Main factors were new factory construction and new machinery and equipment introductions including automated manufacturing equipment, molding machinery, and processing machinery.
(Liabilities)
Consolidated liabilities at the end of the period under review totaled ¥3,649,502 thousand, reflecting an increase of ¥422,249 thousand compared with the end of the previous fiscal year. Main factors were higher accounts payable-trade and corporation taxes payable.
(Net assets)
Consolidated net assets at the end of the period under review totaled ¥21,190,502 thousand, reflecting an increase of ¥167,599 thousand compared with the end of the previous fiscal year. This increase was mainly due to a rise in retained earnings.

(ii) Status of cash flow
Consolidated cash and cash equivalents at the end of the period under review totaled ¥2,828,007 thousand, which was ¥301,594 thousand higher than at the end of the previous fiscal year. Status of cash flows and underlying factors developed as follows.

(Operating cash flows)
Net cash provided by operating activities was ¥1,233,587 thousand (compared with an increase of ¥882,300 thousand in the previous fiscal year). Cash provided by operating activities comprised mainly ¥968,692 thousand in net income before income taxes and minority interests, ¥715,886 thousand in depreciation charges, ¥252,065 thousand in goodwill amortization, and a ¥272,012 thousand increase in accounts payable-trade. Cash used in operating activities comprised mainly a ¥572,099 thousand increase in accounts receivable-trade and payments of ¥437,379 thousand in corporation taxes, etc.

(Investing cash flows)
Net cash used in investing activities was ¥801,374 thousand (compared with a decrease of ¥1,012,477 thousand in the previous fiscal year). Cash provided by investing activities consisted mainly of ¥6,916,759 thousand in income from the repayment of term deposits. Cash used in investing activities consisted mainly of ¥6,251,417 thousand in expenditure for newly posted term deposits and ¥1,491,245 thousand in expenditure for the acquisition of property, plant, and equipment.

(Financing cash flows)
Net cash used in financing activities was ¥72,567 thousand (compared with a decrease of ¥68,104 thousand in the previous fiscal year). The main factor was ¥73,055 thousand in dividend payments.

(Supplemental information: Variation in cash flow related indicators)

| | Fiscal year to March 2012 | Fiscal year to March 2013 | Fiscal year to March 2014 | Fiscal year to March 2015 | Fiscal year to March 2016 |
|---|---|---|---|---|---|
| Equity ratio | 93.4 | 93.9 | 86.6 | 86.7 | 85.3 |
| Equity ratio based on market value | 30.9 | 26.9 | 53.9 | 40.3 | 45.0 |
| Ratio of cash flow to interest bearing debt | — | — | — | 1.1 | 0.2 |
| Interest coverage ratio | (632,843.7) | 55,874.9 | 610.0 | 567.2 | 924.9 |

Equity ratio: Shareholders’ equity divided by total assets
Equity ratio based on market value: Market capitalization divided by total assets
Ratio of cash flow to interest bearing debt: Interest bearing debt divided by cash flow
Interest coverage ratio: Cash flow divided by interest paid
* All indicators are calculated based on consolidated financial data.
* Market capitalization is calculated by multiplying the share’ s closing price at the end of the period with the number of shares issued and outstanding at the end of the period (after deduction of treasury shares).
* Cash flow based indicators use operating cash flow.
* Interest bearing debt includes all liabilities on the consolidated balance sheet on which interest is paid.

(3) Fundamental policies concerning dividend payment and dividend outlook for the current and next fiscal year

As a fundamental policy, returns of earnings to shareholders are determined with consideration of necessary internal retention to provide for future investment while providing stable and sustained dividend payments for shareholders.

Based on the fundamental policies of the Company concerning the distribution of earnings, for the current fiscal year it is planned to raise the year-end dividend by ¥8.0 to ¥16.0 per share, with a view to balancing dividends with the financial results for the fiscal year and necessary internal retention.

A dividend of ¥16.0 per share is planned also for the next fiscal year.

## 2. Management policies

### (1) Fundamental management policies of the Company

The Company has made its management principles to "Based on outstanding technologies and creativity, we will supply high-quality products, contribute to social development, and pursue corporate growth and employee satisfaction, while fulfilling our social responsibilities."

By employing the core technologies accumulated since the Company's founding, we will work to provide new value to society and deliver continuous and stable enterprise value enhancements to shareholders, customers, employees and their families, and all other stakeholders of the Company.

### (2) Management index targets

The Group aims to establish business structures that enable sustained gains in enterprise value and to that end has established its medium-term management plan "Master Plan 2016" started in April 2016. The Master Plan 2016 defines goals to be attained in fiscal year 2021, calling for consolidated sales of ¥25 billion and operating income of ¥2.5 billion.

### (3) Medium and long term management strategies and issues to be solved

Based on the medium-term management plan "Master Plan 2010" started in April 2010, the Group has to date launched a varied range of measures in order to achieve steady earnings growth. Under the Master Plan 2010, quantitative management targets for fiscal year 2015, the final year of the plan, call for ¥10 billion in consolidated sales and ¥1.3 billion in operating income. In order to attain these targets, we have put into place three fundamental policies, namely "Restructure operations" for creating a lean corporate structure, "Business expansion" aiming at higher magnitudes of sales, and "Organizational restructuring" to create a foundation to support growth, and have been working on solving the issues presented by each of these objectives. These efforts resulted in the period under review in sales of ¥12.1 billion, thus successfully attaining the management target established for sales under the Master Plan 2010, but operating income fell short of target at ¥0.9 billion, leaving issues to be tackled in the next fiscal year.

The new medium-term management plan "Master Plan 2016," started in fiscal year 2016, takes up issues not attained under the Master Plan 2010 and sets the direction for realizing the shape that the Company should have acquired by fiscal year 2021, marking the Group's 50th anniversary. The corporate vision which the Group is aiming to realize and the management targets for fiscal year 2021 are outlined below. Through our efforts at their realization we will establish corporate structures designed to successfully achieve steady gains in enterprise value over the next fifty years.

■ Corporate vision

In order to become "Global customers' best partner" we continue relentlessly to take up new challenges.

- Our precision technology makes us customers' most trusted partner.
- We create new businesses, products, and technologies based on imaginative thinking.

■ Fiscal year 2021 management targets

Consolidated sales of ¥25 billion with operating income of ¥2.5 billion

Under the new medium-term management plan "Master Plan 2016" the Group needs to solve the following three issues.

(i) Strengthening earnings of existing businesses

The Group has been launching business initiatives geared at global markets based on its positions of competitive strength in precision processing and precision polishing. Relevant business fields cover a varied range, including automotive applications, communications infrastructure, electronic devices such as laptop computers and mobile terminals, as well as broadcasting equipment and measuring instruments. Despite the dissimilar market environments of each business field, environments have generally been changing at an accelerating pace, and the contest with competitor companies has tended to intensify across industry dividing lines and national borders. In order to steadily acquire greater market shares and expand sales and earnings also in environments fitting this description, it is critically important to reinforce selling capabilities and price competitiveness.

For strengthening the Group's selling capabilities it is essential to discern growth markets through appropriate marketing and identify the points where market needs match with the Group's technologies and products. Moreover, in order to create many more opportunities for meeting new customers we will exhibit at trade fairs and toward raising our visibility in the market proactively engage in media-based PR about the Group's technologies and products through press releases in newspapers and magazines and through our Internet presence. In parallel to these measures, we will shorten lead times between new technology developments and product releases and work to provide services that in every respect of technology, quality, and performance exceed customers' expectations.

In order to reinforce price competitiveness, we will aim at further manufacturing cost reductions by optimizing all aspects of production, purchasing, and logistics. At the production level, we will work to shorten lead times through measures such as production process enhancements including automation and improved products designs. In purchasing we will maintain excellent partnerships with our global trading partners, while aiming to establish framework structures that enable procurement of the best materials at appropriate prices. In logistics we will eliminate sub-optimal economies across the width from order receipt to product delivery and work on supply chain structures to minimize cost and time.

(ii) Business portfolio optimization

For the Group to acquire the ability to steadily raise its enterprise value going forward, we will work to establish "income generator businesses" that function as steady cash spinners in matured markets and "growth driver businesses" whose cash generation can be expected to rise proportionately with rising demand in growth markets. Moreover, in order to create the income generator businesses and growth driver businesses of the future, it is critically important to nurture "growth potential businesses" quickly to the earnings stage and to develop "next-generation businesses."

Through the implementation of the structural reforms under the previous medium-term management plan "Master Plan 2010" and through M&A transactions, the Group successfully exited from the loss-making structures in place until that time. At present, the Group has secured "income generator businesses" and "growth driver businesses" in automotive molded products and precision pressed parts, optical connector polishing machinery, optical transmission units, and optical electric-field sensors.

In optical communications components, however, market growth has been attended by significant price declines. With earnings under additional pressure from surging labor costs at principal factory sites in China, we will step up our cost reduction efforts and focus on the development of new products with high added-value content. Moreover, sales of heat resistant lenses, currently used mostly for smartphones, have been subject to gyrations depending on compatibility with new smartphone models. In order to achieve steady sales, we have been promoting uses in other fields such as medical and automotive applications. The precision molded-products business, which has been in the process of reforming its business structure away from mold sales, has been receiving trade inquiries from various industries at trade fairs, with repeated trial productions toward mass production. We will work to transform these existing "growth potential businesses" into earnings generators and achieve speedy transitions to competitive "growth driver businesses" while streamlining unprofitable operations whose restoration to black figures is impracticable.

Moreover, critically important, we will be using the cash generated by "income generator businesses" and "growth driver businesses" to identify and raise new "next-generation businesses" in future growth areas such as automotive, medical equipment, and bio science applications. Generated cash will not be held back but put to active use to create businesses that will carry the Group's future. In this way we will create an optimized business portfolio that will enable perpetual corporate growth.

(iii)Reinforcing the management base

For the Group to keep perpetually raising its enterprise value, perfecting and strengthening the management resource in terms of human resources, hardware, funds, and information is critically important.

Regarding human resources, we will focus our efforts on hiring and training. At the same time, we will work on system reform towards assessment systems and remuneration systems for assessing and rewarding personnel members who are able to perform the Group’s newly established “3C” (Challenge, Communicate, and Complete) action guidelines. Moreover, in order to achieve an organization culture affording employees a sense of achievement, fairness, and solidarity, we will also work on reforming the Company’s organization culture, aiming at an organization where all employees can activate their capabilities to the full extent.

As to hardware and funds, we will implement facility investments based on our medium-term management plan. At the same time, with a view to realizing the corporate shape we are aiming to achieve for the Company, we will actively make strategic investments in technologies, facilities, and operations when internal solutions are impracticable and acquisitions promise a shortcut to success.

As to the information aspect, it is critically important that we strengthen Group-internal communication and create new added value by sharing the knowledge owned by each company of the Group. Toward realizing these objectives, the International Sales and Marketing Conference has been held which takes place half-yearly at the Japan head office, where Group company executives come together to share information about market trends and the status of technology development. Beginning in fiscal year 2016, we initiated also the cross-divisional Development Promotion Meeting for the creation of new products and technologies.

By steadily executing the policies and measures defined in the medium-term management plan “Master Plan 2016,” we will further strengthen the Group’s management base, which forms the basis for growth, and work to become an enterprise group that permanently contributes to the advancement of society across a wide range of industrial fields.

3. Fundamental concepts concerning the selection of accounting standards

With consideration of the inter-periodic comparability and inter-company comparability of consolidated financial statements, for the time being, it remains the fundamental policy of the Company to prepare its consolidated financial statements in accordance with Japan-GAAP.

With respect to the application of IFRS it is the policy of the Company that appropriate action will be taken with consideration of the situations in Japan and overseas.

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheet

(Unit: Thousands of yen)

| | Current Consolidated Accounting Year (As of March 31, 2015) | Current Consolidated Accounting Year (As of March 31, 2016) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 9,428,672 | 9,050,508 |
| Notes and accounts receivable-trade | 2,297,260 | 2,618,264 |
| Merchandise and finished goods | 375,555 | 321,540 |
| Work in process | 407,297 | 430,255 |
| Raw materials and supplies | 799,956 | 876,356 |
| Income taxes receivable | 68,841 | 74,418 |
| Other | 863,971 | 1,050,974 |
| Allowance for doubtful accounts | (5,377) | (5,235) |
| Total current assets | 14,236,178 | 14,417,083 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 5,523,402 | 6,190,663 |
| Accumulated depreciation | (3,511,937) | (3,631,713) |
| Buildings and structures, net | 2,011,465 | 2,558,919 |
| Machinery, equipment and vehicles | 4,699,279 | 4,959,130 |
| Accumulated depreciation | (3,873,985) | (3,910,965) |
| Machinery, equipment and vehicles, net | 825,294 | 1,048,165 |
| Land | 2,335,796 | 2,335,796 |
| Construction in progress | 332,117 | 358,172 |
| Other | 4,556,384 | 4,655,912 |
| Accumulated depreciation | (4,148,864) | (4,199,924) |
| Other, net | 407,520 | 455,988 |
| Total property, plant and equipment | 5,912,194 | 6,757,071 |
| Intangible assets | | |
| Goodwill | 2,058,953 | 1,806,888 |
| Customer related assets | 549,035 | 481,806 |
| Other | 126,988 | 112,584 |
| Total intangible assets | 2,734,977 | 2,401,279 |
| Investments and other assets | | |
| Investment securities | 332,467 | 248,114 |
| Real estate for investment, net | 1,000,906 | 982,724 |
| Other | 33,432 | 33,731 |
| Total investments and other assets | 1,366,806 | 1,264,570 |
| Total noncurrent assets | 10,013,978 | 10,422,921 |
| Total assets | 24,250,157 | 24,840,005 |

(Unit: Thousands of yen)

| | Current Consolidated Accounting Year (As of March 31, 2015) | Current Consolidated Accounting Year (As of March 31, 2016) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 1,102,998 | 1,330,120 |
| Income taxes payable | 207,999 | 350,629 |
| Reserve for bonuses | 76,457 | 80,172 |
| Other | 797,065 | 830,242 |
| Total current liabilities | 2,184,521 | 2,591,163 |
| Noncurrent liabilities | | |
| Pension liabilities | 678,235 | 747,271 |
| Long-term accounts payable-other | 145,370 | 145,370 |
| Long-term guarantee deposited | 42,832 | 25,699 |
| Long-term lease deposited | 19,037 | 19,037 |
| Deferred tax liability | 117,424 | 81,469 |
| Other | 39,833 | 39,491 |
| Total noncurrent liabilities | 1,042,732 | 1,058,339 |
| Total liabilities | 3,227,253 | 3,649,502 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 6,791,682 | 6,791,682 |
| Capital surplus | 10,571,419 | 10,571,419 |
| Retained earnings | 2,903,260 | 3,364,509 |
| Treasury stock | (315,504) | (293,014) |
| Total Shareholders' equity | 19,950,857 | 20,434,597 |
| Accumulated other comprehensive income | | 1 |
| Valuation difference on available-for-sale securities | 6,482 | (3,070) |
| Foreign currency translation adjustment | 1,031,219 | 796,967 |
| Cumulative pension adjustment amount | 25,396 | (45,556) |
| Total accumulated other comprehensive income | 1,063,098 | 748,340 |
| Subscription rights to shares | 8,947 | 7,564 |
| Total net assets | 21,022,903 | 21,190,502 |
| Total liabilities and net assets | 24,250,157 | 24,840,005 |

(2) Consolidated Income Statement

(Unit: Thousands of yen)

| | Current Consolidated Accounting Year (from April 1, 2014 to March 31, 2015) | Current Consolidated Accounting Year (from April 1, 2015 to March 31, 2016) |
|---|---|---|
| Sales amount | 11,517,486 | 12,182,898 |
| Cost of sales | 8,149,587 | 8,393,613 |
| Gross profit | 3,367,899 | 3,789,284 |
| Selling, general and administrative expenses | 2,819,221 | 2,859,021 |
| Operating income | 548,677 | 930,263 |
| Non-operating income | | |
| Interest income | 12,748 | 10,458 |
| Dividends income | 530 | 780 |
| Income from subsidies | 12,690 | 2,201 |
| Rent of real estate for investment | 54,951 | 50,946 |
| Royalties received | 1,835 | 4,184 |
| Gains on foreign exchange | 31,279 | ― |
| Other | 32,062 | 21,543 |
| Total non-operating income | 146,098 | 90,114 |
| Non-operating expenses | | |
| Cost of real estate rent | 20,385 | 17,399 |
| Foreign exchange losses | ― | 8,724 |
| Equity in losses of affiliates | 25,170 | 19,004 |
| Other | 4,536 | 7,990 |
| Total non-operating expenses | 50,092 | 53,119 |
| Ordinary income | 644,683 | 967,258 |
| Extraordinary income | | |
| Gain on sales of noncurrent assets | 3,180 | 1,468 |
| Total extraordinary income | 3,180 | 1,468 |
| Extraordinary loss | | |
| Loss on disposition of non-current assets | ― | 35 |
| Total extraordinary losses | ― | 35 |
| Net income before income taxes and minority interests | 647,863 | 968,692 |
| Income taxes-current | 362,782 | 477,135 |
| Income taxes-deferred | (18,563) | (58,730) |
| Total income taxes | 344,219 | 418,404 |
| Net income for the period | 303,644 | 550,287 |
| Net income for the period attributable to shareholders of the parent company | 303,644 | 550,287 |

(Statement of Consolidated Comprehensive Income)

(Unit: Thousands of yen)

| | Current Consolidated Accounting Year (from April 1, 2014 to March 31, 2015) | Current Consolidated Accounting Year (from April 1, 2015 to March 31, 2016) |
|---|---|---|
| Net income for the period | 303,644 | 550,287 |
| Other comprehensive income | | |
| Net unrealized holding gains on securities | 4,775 | (9,553) |
| Foreign currency translation adjustments | 405,411 | (199,156) |
| Cumulative adjustment of retirement benefits | 12,998 | (70,952) |
| Equity in earnings of equity-method affiliates | (23,613) | (35,095) |
| Total other comprehensive income | 399,570 | (314,757) |
| Comprehensive income | 703,215 | 235,529 |
| （Items） | | |
| Comprehensive income attributable to owners of the parent | 703,215 | 235,529 |
| Comprehensive income attributable to non-controlling shareholders | ― | ― |

3) Consolidated Statements of Changes in Net Assets

Previous Consolidated Accounting Year (from April 1, 2014 to March 31, 2015)

(Unit: Thousands of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the end of previous period | 6,791,682 | 10,571,419 | 2,678,309 | (363,131) | 19,678,280 |
| Changes of items during the period | | | | | |
| Distribution of surplus | | | (45,841) | | (45,841) |
| Net income for the period attributable to shareholders of the parent company | | | 303,644 | | 303,644 |
| Disposal of treasury share | | (32,852) | | 47,626 | 14,774 |
| Transfer from retained earnings to capital surplus | | 32,852 | (32,852) | | – |
| Net change during the period in items other than shareholders' equity | | | | | |
| Total changes of items during the period | – | – | 224,950 | 47,626 | 272,577 |
| Balance at the end of current period | 6,791,682 | 10,571,419 | 2,903,206 | (315,504) | 19,950,857 |

| | Accumulated other comprehensive income | | | | Subscription rights to shares | Total net assets |
|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Cumulative adjustment of retirement benefits | Total accumulated other comprehensive income | | |
| Balance at the end of previous period | 1,707 | 659,422 | 12,398 | 663,527 | 11,904 | 20,353,712 |
| Changes of items during the period | | | | | | |
| Distribution of surplus | | | | | | (45,841) |
| Net income for the period attributable to shareholders of the parent company | | | | | | 303,644 |
| Disposal of treasury share | | | | | | 14,774 |
| Transfer from retained earnings to capital surplus | | | | | | – |
| Net change during the period in items other than shareholders' equity | 4,775 | 381,797 | 12,998 | 399,570 | (2,956) | 396,614 |
| Total changes of items during the period | 4,775 | 381,797 | 12,998 | 399,570 | (2,956) | 669,191 |
| Balance at the end of current period | 6,482 | 1,031,219 | 25,396 | 1,063,098 | 8,947 | 21,022,903 |

Current Consolidated Accounting Year (April 1, 2015 to March 31, 2016)

(Unit: Thousands of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the end of previous period | 6,791,682 | 10,571,419 | 2,903,260 | (315,504) | 19,950,857 |
| Changes of items during the period | | | | | |
| Distribution of surplus | | | (73,524) | | (73,524) |
| Net income for the period attributable to shareholders of the parent company | | | 550,287 | | 550,287 |
| Disposal of treasury share | | (15,513) | | 22,490 | 6,976 |
| Transfer from retained earnings to capital surplus | | 15,513 | (15,513) | | — |
| Net change during the period in items other than shareholders' equity | | | | | |
| Total changes of items during the period | — | — | 461,249 | 22,490 | 483,739 |
| Balance at the end of current period | 6,791,682 | 10,571,419 | 3,364,509 | (293,014) | 20,434,597 |

| | Accumulated other comprehensive income | | | | Subscription rights to shares | Total net assets |
|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Cumulative adjustment of retirement benefits | Total accumulated other comprehensive income | | |
| Balance at the end of previous period | 6,482 | 1,031,219 | 25,396 | 1,063,098 | 8,947 | 21,022,903 |
| Changes of items during the period | | | | | | |
| Distribution of surplus | | | | | | (73,524) |
| Net income for the period attributable to shareholders of the parent company | | | | | | 550,287 |
| Disposal of treasury share | | | | | | 6,976 |
| Transfer from retained earnings to capital surplus | | | | | | — |
| Net change during the period in items other than shareholders' equity | (9,553) | (234,252) | (70,952) | (314,757) | (1,382) | (316,140) |
| Total changes of items during the period | (9,553) | (234,252) | (70,952) | (314,757) | (1,382) | 167,599 |
| Balance at the end of current period | (3,070) | 796,967 | (45,556) | 748,340 | 7,564 | 21,190,502 |

(4) Consolidated Statement of Cash Flows

(Unit: Thousands of yen)

| | Previous Consolidated Accounting Year (from April 1, 2014 to March 31, 2015) | Current Consolidated Accounting Year (from April 1, 2015 to March 31, 2016) |
|---|---|---|
| Net cash provided by (used in) operating activities | | |
| Income before income taxes and minority interest | 647,863 | 968,692 |
| Depreciation and amortization | 716,183 | 715,886 |
| Amortization of goodwill | 252,065 | 252,065 |
| Interest and dividends income | (13,278) | (11,238) |
| Investment loss (gain) on equity method | 25,170 | 19,004 |
| Property rents received | (54,951) | (50,946) |
| Loss (gain) on sales of noncurrent assets | (12,690) | (2,201) |
| Increase (decrease) in allowance for doubtful accounts | (3,180) | (1,433) |
| Increase (decrease) in provisioning for bonuses | (612) | (47) |
| Increase (decrease) in provision for retirement benefits | 2,236 | 3,714 |
| Increase (decrease) in pension liabilities | 41,543 | (1,916) |
| Foreign exchange losses (gains) | (44,019) | 25,524 |
| Decrease (increase) in notes and accounts receivable-trade | (411,571) | (572,099) |
| Decrease (increase) in inventories | (51,850) | (97,680) |
| Decrease (increase) in other current assets | 102,495 | 17,349 |
| Increase (decrease) in notes and accounts payable-trade | (77) | 272,012 |
| Increase (decrease) in accounts payable | (2,395) | (8,265) |
| Increase (decrease) in other current liabilities | 67,935 | 42,264 |
| Subtotal | 1,260,866 | 1,570,685 |
| Interest and dividends income received | 82,698 | 27,656 |
| Income taxes refund | 3,633 | 70,423 |
| Subsidies received | 12,690 | 2,201 |
| Income taxes paid | (477,588) | (437,379) |
| Net cash provided by (used in) operating activities | 882,300 | 1,233,587 |
| Net cash provided by (used in) investing activities | | |
| Payments into time deposits | (6,984,196) | (6,251,417) |
| Proceeds from withdrawal of time deposits | 6,546,822 | 6,916,759 |
| Purchase of property, plant and equipment | (710,397) | (1,491,245) |
| Proceeds from sales of property, plant and equipment | 4,294 | 3,040 |
| Purchase of intangible assets | (39,925) | (10,934) |
| Purchase of investment securities | (966) | (1,069 ) |
| Income from sale of shares in affiliates | 64,367 | ― |
| Income from sale of investment securities | 52,333 | ― |
| Proceeds from rental of real estate for investment | 54,951 | 33,813 |
| Other | 238 | (321) |
| Net cash provided by (used in) investing activities | (1,012,477) | (801,374) |

(Unit: Thousands of yen)

| | Previous Consolidated Accounting Year (from April 1, 2014 to March 31, 2015) | Current Consolidated Accounting Year (from April 1, 2015 to March 31, 2016) |
|---|---|---|
| Net cash provided by (used in) financing activities | | |
| Expenditure for the settlement of lease obligations | (34,430) | (5,183) |
| Dividend payment amount | (45,683) | (73,055) |
| Income from the exercise of stock options | 12,009 | 5,671 |
| Net cash provided by (used in) financing activities | (68,104) | (72,567) |
| Effect of exchange rate change on cash and cash equivalents | 123,317 | (58,050) |
| Net increase (decrease) in cash and cash equivalents | (74,964) | 301,594 |
| Cash and cash equivalents at beginning of period | 2,601,378 | 2,526,413 |
| Cash and cash equivalents at end of period | 2,526,413 | 2,828,007 |